

Management News

BUSINESS CONDITIONS & FORECASTS

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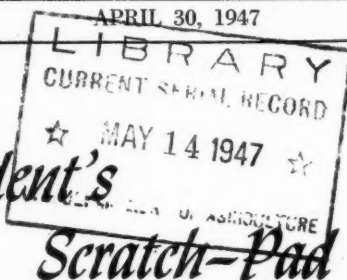
VOL. 20, No. 4

APRIL 30, 1947

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American Management Association



The
President's
Scratch-Pad



TRENDS IN BUSINESS

GENERAL OUTLOOK

The business situation is little changed from last month, although there seems to be a general feeling that the country is moving closer to the expected recession.

Scattered cuts have done little to lower the general price level—wholesale prices in general are off only about 1 per cent from the mid-March peak, although food prices have dropped rather more.

Hopeful signs are the increasing indications of peace on large segments of the labor front, as well as the fact that both jobs and national income are holding up. Income of individuals is still running close to an annual rate of \$177 billion, and the number of jobless was only a little more than 2 million in March. Average hourly earnings of factory workers were 16 per cent above a year ago, while average weekly earnings were about \$47.

Although retail unit volume is undoubtedly below last year's, dollar volume is holding up well, despite the fact that the comparison in the latest week was between post-Easter and pre-Easter periods.

CORPORATE EARNINGS

The year 1946, says the National City Bank, "will go down in the records as one of the best from the standpoint of earnings of a majority of American companies."

The Bank's tabulation of the statements of over 2,900 leading corporations shows combined net income after taxes of approximately \$6.7 billion in 1946, compared with \$5.2 billion in 1945. This represents an average return of 9.5 on combined capital and surplus of \$70.8, compared to a 7.7 per cent return on 1945's \$68 billion net worth.

Three-Way Communication

IT IS widely recognized that good management very largely consists of the development of freely working channels that provide for the transmission of ideas and policies, both up and down through the organization. The maintenance of these lines of communication is a continuous job in which large numbers of people are engaged; and the effectiveness with which it is performed has direct bearing upon the company's over-all efficiency.

But communication could be more effectively carried out if it were conceived as a *three-way* process because it is just as important to have rapid transmission of information among members of departments of management as it is to have it between management and rank-and-file workers. Here are some factors that should be considered in this connection:

1. *Executive morale.* The executive membership of any given department in a company is composed principally of a middle management group, with executive, technical, and clerical responsibilities of varying importance. It is a group that is largely taken for granted. No one ever bothers to measure its pulse or sample its opinion. Its individual members belong to no unions; work long hours if necessary; have a fair or hazy idea of the company's policies and objectives; see the bosses of top management occasionally; and get poor, fair or good salaries, depending upon the liberality of the company.

While the company may be keenly aware of the importance of developing

first-line supervision, it sometimes forgets what kind of supervision first-line supervision receives. One member of this middle management stratum told this writer that he sometimes wished he could attend foreman training conferences, so that he could learn more about what was going on in the company and what its general policies were.

2. *Communication down the line.* It is frequently reiterated that a good operating personnel policy begins with top management. This matter of interdepartmental communication is a prime illustration of that point. You may start improving personnel relations through improved foremanship. But foremen need good bosses, and good bosses only come through good top management. Thus, again, industrial relations insists on backing up into the lap of the company president.

3. *Operating aspects.* Management authorities, in auditing the operations of individual companies, generally try to determine as soon as possible how much liaison exists interdepartmentally in the organization. It is obvious that when this is lacking to a marked degree there is a serious interference with over-all efficiency. As an illustration, a personnel director, talking about the rate of employee turnover in one of his company's plants, said that a contributing factor to turnover lay in poor coordination between the personnel department and the production department. The latter failed to inform the personnel department of its production schedules,

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Trends in Business

(Continued)

DISTRIBUTION

Dollar volume of retail sales in the first post-Easter week (ending April 16) was slightly above the corresponding week of last year. Wholesale volume remains well above last year, although retailers are becoming more cautious in their purchases and are limiting orders in some non-durable goods lines to what is necessary to meet immediate needs.

BUSINESS FAILURES

Dun & Bradstreet reports that failures for the year to date (to April 17) totaled 891, as compared to 321 in the same period of 1946. In the latest week, failures were more than four times as numerous as in the corresponding week of last year: 68 as against 16.

Manufacturing and retailing failures each numbered 32, while failures in other industry and trade groups remained at a low level.

CONSTRUCTION

Building permit values in 214 cities (not including New York) were more than 54 per cent under the total for March of last year, Dun & Bradstreet reports. In New York City, however, plans for more than \$60 million worth of construction were filed, which is more than double the February figure, and 45 per cent over March of last year.

Department of Commerce figures indicate that lumber costs have risen 183 per cent since 1939, and 47.3 per cent since last fall.

PRODUCTION

Manufacturing output reached new post-war highs in March and early April, with very slight curtailment the latter part of this month.

Factory employment is now about evenly distributed between durable and non-durable goods, in contrast to the war period when employment in durable goods was about 50 per cent greater than employment in non-durable goods.

SOURCES:

ALEXANDER HAMILTON INSTITUTE
BROOKMIRE, INC.
BUSINESS WEEK
CLEVELAND TRUST COMPANY
DUN'S REVIEW
FEDERAL RESERVE BANK OF
NEW YORK
NATIONAL CITY BANK

The Listening Post

Specialization • It becomes more acutely noticeable year by year that management leadership inevitably tends to become concentrated in specialized fields of management; the leader is generally a specialist himself—in finance, personnel, marketing, public relations, etc., and he is inclined to talk more with specialists of his own kind than with specialists engaged in handling other management functions. Further, beyond this over-all compartmentalization, there are compartments within compartments; and specialties seem to persist in sending forth buds of new specialties.

The AMA, through its conferences and publications, seeks to bring about an awareness on the part of functional specialists of each other's existence and importance, and, in particular, tries to keep them apprised of the actual problems arising in activities other than their own.

One event in AMA's activities aimed directly at breaking down the compartmentalization will be the General Management Conference taking place in New York City on June 11 and 12. Here various divisional leaders of AMA will meet to compare notes publicly; it will be a unique event in the annals of the Association and will form a pattern for subsequent conferences.

Incentives • It is commonly considered that paying inspectors by the piece will result in loss of quality. However, Norton Company, Worcester, Mass., has tried it without adverse effects.

Charles J. Hudson, Quality Manager, reported on the plan at the Production Conference:

"The inspector receives a definite amount for each manufacturing order and a rate per 100 pieces inspected. . . . Check inspectors are employed to check a certain percentage of work.

"Our experience has shown, if anything, closer adherence to quality standards under piece work than under day work. Our records show that incentive payment on inspection work has increased production, reduced cost, and improved employee morale."

Fresh vegetables • Before very long housewives will be able to buy fresh vegetables kitchen-serviced and packaged in consumer units.

A. L. Martin, Director of Research for the Western Growers Association, described the development at the Packaging Conference, and predicted that the packaged produce will probably appear in retail stores by next year.

"Through months of painstaking research," Mr. Martin said, "we have found means to prolong the life span of lettuce, celery, broccoli, carrots, cauliflower, tomatoes, and brussels sprouts to not less than 45 days. We can clean these products, treat them for decay control, package each head or stalk or bunch, and hold them without loss of weight, crispness, discoloration, oxidation, mold or slime at temperatures between 33 and 40 degrees F. for 45 days, with no deterioration in taste or loss of sugar content."

Pilferage • Labels which indicate the contents, are inadvisable on packages designed for export shipment, John Mount, of the Insurance Company of North America, told the Packaging Conference. Pilferage is widespread, it appears, in many of the war-torn countries of Europe and Asia, and too-informative labeling constitutes added temptation.

It can happen here too, under certain circumstances. Just after the end of hostilities, when new radios were hard if not impossible to come by, a manufacturer sent out samples to his dealers, all attractively labeled: "This is —'s new model radio." As an advertising feature, the label was a huge success—with the wrong audience. Few of the dealers ever saw the samples because would-be consumers extracted them en route.

Profit-sharing • In its first year of operation under its profit-sharing plan the Adamson Manufacturing Company nearly doubled its profits. Joseph Scanlon, of the United Steelworkers, reported at the Production Conference.

The plan is, however, a drastic one, which most companies would be apt to shy away from. For one thing, it involves union participation in the solution of production problems, and opening the books to the union. For another, 50 per cent of profits before taxes constitute the pool from which shares are distributed.

JAMES O. RICE

RESEARCH DEPARTMENT

Economic Data in Wage Determination*

Economic data are essential in formulating company wage policies. They strengthen the negotiators; take the edge off excessive union demands, and make it possible to explain the company's position to its various "publics"—stockholders, customers, and government. The following is designed as a checklist of major economic data to be considered in determining wage changes.

PRODUCTIVITY

Three types of productivity changes can be taken into account: (1) increased productivity traceable to improved employee contributions; (2) increased productivity traceable to more efficient machines, methods, and managerial techniques; and (3) decreased productivity traceable to union rules—output restrictions, prevention of technological changes, closed union practices, and reductions of management rights necessary for greater efficiency.

COST OF LIVING

Over the last 12 months consumer prices have gone up by 18 per cent; food prices alone have increased 30 per cent. A growing number of companies are granting wage increases to match the rise in living costs—that is, in part. But the cost of living index is a highly fallible barometer—it is behind the times on the downgrade as well as on the upgrade—which is why attention is often given also to employees' "customary budgets"—current expenses plus long-term obligations.

FINANCIAL POSITION

The firm's financial position during the coming year in the light of the past and the present determines its actual wage-paying capacity. Apart from an independent estimate of future sales, the effect of various possible wage increases on costs, prices, and demand must be gauged. Wage increases leading to price increases are likely to affect sales less adversely when (1) substi-

tutes for the product cannot easily be found; (2) purchase of the product forms a small proportion of consumers' expenditures; (3) competitors (for product and labor supply) act likewise; (4) business volume is expanding; (5) short-run consumer reactions can be ignored.

The effect of increasing wages on costs (total, per unit, and additional) needs to be estimated. Under wage pressure there may be offsets from a reduction of other costs: through working more nearly to capacity with subsequent reduction of overhead unit costs, improved efficiency or "squeezing" of other factors of production. The probable relationship of costs and revenues at different levels of output may often be more easily understandable if shown in the form of break-even charts.

COMPARATIVE WAGES

Wage comparisons must take into account job content, systems of wage payment, net advantages and disadvantages of jobs, and the financial position and stage of development of each of the companies concerned.

The following tentative generalizations may be found useful: (1) There is a great diversity of wage rates on the same job. (2) Large firms generally pay higher rates than small firms. (3) Union rates tend to be higher than non-union rates. (4) Leadership firms in union areas are not likely to pay more than 5 per cent above the prevailing rates. (5) Rates rise faster in expanding than in contracting industries. (6) Differentials tend to narrow geographically, occupationally, and as between plants, but area differences in the cost of living and employment opportunities continue to make for differentials on similar jobs.

BARGAINING POWER OF LABOR

Labor's bargaining power tends to be greater the less easily the number of employees can be reduced as wages are increased. Bargaining power is also favored by: (1) the closed shop and the closed union; (2) absence of non-union competition; (3) difficulty of replacing workers by other types of labor or by machinery; (4) a labor cost small in relation to total cost.

'POLITICAL' FACTORS

Finally, there are a large number of intangible factors, called "political" by some, and considered of greater importance than the economic factors. These include the strength of the union's leaders, their negotiating ability, the wishes and powers of the membership, the relationship of the local to the international union, the policies and accomplishments of competing unions, the union's funds and capacity of resistance.

On the company side, too, certain strategic factors must be taken into account in wage bargaining. These include the nature of over-all policies, the philosophy and status of management, its relationships to its various "publics," the degree of leadership it exercises in the local community, the area, and the industry (the extent to which it sets or follows a pattern), its projected financial position (short- and long-run), the need for attracting new employees and new capital.

Above all the capacity of the negotiators, the arguments which they present and the influence which they exert on the economic literacy of all concerned will be a great force for good or evil in an increasingly interdependent community.

Insurance Meeting May 5-6 to Review New Developments

AMA's Spring Insurance Conference, which will be held May 5 and 6 at the Hotel New Yorker, New York City, will review latest developments in coverage and in insurance thinking.

Topics will include: "Current Changes in Insurance Buying Policy," "The Implications of State Health and Accident Laws," "Multiple Line Insurance Underwriting," "Today's Problems in Foreign Insurance" and "Loss Prevention and Protection."

P. H. Littlefield, Treasurer, Canada Dry Ginger Ale, Inc., will give a case story of what his company has done to reduce paperwork in the insurance department; and L. L. Schlosser, Assistant Secretary, Michigan Consolidated Gas Company, will speak on "Insurance Certificates—Do They Reveal or Conceal?" A question-and-answer session, at which the audience will have an opportunity to present individual questions to experts will be another feature.

*Helpful material for wage negotiations can be found in S. R. Slichter, *Basic Criteria in Wage Negotiations*, Chicago Association of Commerce, 1947; Neil W. Chamberlain, *Collective Bargaining Procedures*, American Council on Public Affairs, 1944; and Z. C. Dickinson, *Collective Wage Determination*, Ronald Press, 1941.

ACTIVITIES of the AMA



Miss Ruth Kellogg



Miss Leona Powell

Ruth Kellogg Succeeds Leona Powell As Director of AMA Information Bureau

Miss Leona Powell, who has served as Director of AMA's Information Bureau since 1934, has left to join the Sisters of the Dominican Order at the Monastery of Our Lady of Grace at North Guilford, Conn. She is being succeeded by Miss Ruth M. Kellogg, formerly civilian head of the Employee Relations Section in the Office of the Quartermaster General in Washington.

Miss Powell came to AMA originally in 1930 to edit the Association's *Handbook of Business Administration*. Later she was office manager for the American Institute of Food Distribution, returning to the Association to assume the information post.

She has also worked in the Industrial Relations Division of the United Typothetae of America—the trade association of the printing industry—and in the Chicago Office of the Children's Bureau of the U. S. Department of Labor. During the first World War, she was in London as Curator of Documents for the American Shipping Mission there, and from 1912 to 1915 was instructor of economics at Vassar. She is a graduate of Ohio Wesleyan University and holds a Ph.D. in economics from the University of Chicago.

Miss Kellogg, in addition to her work in the Office of the Quartermaster

General, has been with Employee Relations Section, Headquarters, Army Service Forces; The National Industrial Conference Board; and the U.S.E.S. Her personnel experience includes placement, training and research, as well as administrative work.

In connection with graduate work in economics at the University of Chicago, she was sent to Europe to make a survey of public employment services. Later she made a similar survey in the United States, and the findings were published in book form by the University of Chicago Press in 1933, under the title: *The United States Employment Service*.

General Management Conference Planned For Members of All Divisions of AMA

Public relations aspects of labor relations will be among the topics considered at AMA's General Management Conference, set for June 11, and 12 at the Waldorf-Astoria, New York City. The conference is planned as a general meeting of all AMA divisions, and subjects discussed will be considered in relation to over-all policy-making.

Other subjects so far on the program are "Policy: the Conscience of Business," "Top Management Staff for Plan-

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and the manpower requirements as production schedules for future months were determined. In this company, where the cost of turnover per employee was figured at more than \$300, the loss for this cause was considerable.

The results of poor coordination between sales and production are a well-known cause of management headaches, as are the disruptions brought about by ignorance concerning the policies and plans of the controller and budget officers.

What to do? First, as has been indicated earlier in this article, the training of executives is just as important as the training and development of foremen. This training should be a process of continuously imparting to the executive information he should have, and encouraging him to be the right kind of executive. He himself should know the importance of getting to others information that will help them.

In some organizations executive magazines or bulletins are issued regularly; in some other companies "reporting" sessions are held periodically, which are attended by entire departments, such as advertising, sales, finance, production, and at which company plans and policies are discussed. There are many other plans that can be followed or adapted to the needs of individual companies. In any case, here is a management job that ought not to be neglected.

Alvin E. Dodd

ning and Research," and reports by the vice presidents of the various divisions on developments in their fields.

In addition to the vice presidents, speakers so far chosen include Rodney Chase, Director of Industrial and Public Relations, Chase Brass and Copper Company; LeRoy H. Kurtz, General Motors; H. E. Nourse, Vice President, United Airlines Transport Corp., and John A. Stephens, Vice President of Industrial Relations, U. S. Steel.

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